

Roundtable

European Fund Management

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Harder work

With the threat of political intervention and restrictions on infrastructure investment looming, **Zak Bentley** meets five industry professionals who remain confident about the prospects for dealflow and fundraising in Europe's saturated mid-market

Our annual European fund managers' roundtable last year gathered representatives from some of the continent's top firms the day after Donald Trump was confirmed as US president. No such shocks accompany this year's group to the event, although Europe has its own governance issues – or lack of – to think about. At

the time of writing, the Netherlands has only recently ended a period of more than half a year without a formal government, following lengthy coalition talks; Germany remains locked in such talks months after its election; Spain is wading through a constitutional crisis regarding Catalanian independence and Theresa May's UK reign is falling apart around her.

Despite this theme of lack of governance, it is regulation and its impact that has our panellists – Antin's Stéphane Ifker, AMP Capital's Matt Evans, InfraVIA's Bruno Candès, Infracapital's Alberto Signori and DC Placement Advisors' Nina Dohr-Pawlowitz – talking.

The European Commission announced recently that it would enhance



“I think we need to be more creative to create the same returns. Complexity is fine for us, in fact we like it” Ifker

scrutiny of acquisitions from outside the European Union in industries including infrastructure, adding to measures already being taken by member states and bringing some degree of concern to the asset owners. EC President Jean-Claude Juncker’s proclamation that “we are not naive free-traders” has failed to reassure some around the table.

“The part I’m worried about is what kind of grasp the EU will have on the foreign direct investment screening process of a single EU member,” Signori says. “In terms of timetable and process, that’s where I am worried. It may reduce the pool of potential buyers.”

It’s the unknowns of the EC’s plan at this stage that concern Evans, with uncertainty always the bugbear of infrastructure investors.

“What would be helpful is if we had a framework that introduces more predictability so you don’t get what happened in

AROUND THE TABLE



Bruno Candès, partner, InfraVia Capital Partners

Candès joined InfraVia in 2012 and focuses on origination and investment activities. He brings his solid network within the global infrastructure markets and his experience as an infrastructure principal investor across both Europe and North America. Before InfraVia, Candès was a founding member of Fiera Axium Infrastructure.



Nina Dohr-Pawlowitz, CEO & founder, DC Placement Advisors

Dohr-Pawlowitz leads the firm and has overall responsibility for DC’s distribution team. Over the past 14 years, she has raised capital for a variety of top-tier infrastructure equity and debt funds, renewable energy, other real assets and private equity. Over her 25-year career, she has held senior positions at various major global companies, including Siemens and the Canadian Thomson Group.



Matt Evans, principal, investments - infrastructure, AMP Capital

Evans works as a senior originator for AMP’s equity investment team in London and is responsible for fundraising, investment origination and execution for the Global Infrastructure Fund platform. His role, beginning in 2013, has also included executing deals for the AMP-managed Irish Infrastructure Fund. Evans had previously spent about 15 years at Macquarie Group.



Stéphane Ifker, senior partner, Antin Infrastructure Partners

Ifker joined Antin in February 2008 and is a member of the group’s investment committee. His work has included holding board seats at investments such as Porterbrook, Eurofiber and FPS Towers. Before joining Antin, Ifker was managing director of Rothschild Debt Advisory Group.



Alberto Signori, transaction director, Infracapital

Signori arrived at Infracapital in 2012 and is responsible for the origination and execution of the firm’s transactions. Signori has been involved in the utilities and infrastructure space since 2001, when he was a director at UBS for five years. Prior to joining Infracapital, he was responsible for providing advice on equity and debt transactions in the European energy and infrastructure sectors at Commerzbank, heading the German bank’s utilities team.



“Fund managers cannot go out to the market without offering co-investment opportunities” Dohr-Pawlowitz

Poland [with IFM and EDF] agreeing a big deal and being told ‘sorry, no’,” he states. “Things seem to be changing in Europe [and] that’s just introducing a little unpredictability right now. We’ve certainly seen it in other markets and it’s an unwelcome development wherever you see it. Even in Australia, we’ve seen it on foreign investment restrictions on data centres.”

Antin’s Ifker is also troubled by developments in the Netherlands, where Antin has owned Dutch telecoms group Eurofiber since May 2015, and where the government is progressing with plans to potentially limit foreign direct investment in the telecoms sector.

“When it comes to FDI we don’t see it as a risk on the way in. However, this is something we have to manage carefully when we come to exit our investments,” he explains. “Various European countries are contemplating introducing regulation to

oversee the M&A activity in telecom assets, especially those considered to be strategic. Given the scrutiny on cybersecurity, telecom infrastructure might be more and more subject to such types of regulations.”

Talk of individual government interference leads us to the UK, where Theresa May’s government is faced with a Labour opposition keen to nationalise infrastructure assets.

“Where you get into the realms of economic nationalism, it obviously becomes a big issue for an investor and we’d probably just stay away from markets where we’d see that becoming the case,” Evans says. “The question is how credible it is for any government, not just the UK’s? When they become more serious with laws being drafted that’s when you have to start making plans.”

Infracapital has invested in and exited both Yorkshire Water and Affinity Water

and Signori outlines ways fund managers can help themselves in such a scenario.

“Some measures have clearly been taken [by regulators] to increase transparency, favour best performers and reduce certain types of behaviours [in the water sector],” he says. “There are ways to mitigate these measures. Whenever we buy a regulated asset we usually meet the key stakeholders, the regulator, the minister, the community and explain the investment approach. Explaining these things will allow you to mitigate the backlash we have seen in the market right now. Communication is very important.”

However, while admitting InfraVia holds only marginal exposure to regulated assets, Candès proposes a more traditional method of avoiding adverse regulatory decisions.

“The best way to protect your asset in any cycle is to grow the asset base,” he

outlines. “If you create significant organic return on your initial investment, then you know you can exit in a difficult market or you can weather a storm. That has driven us to sectors where you’re not only relying on regulation but also the quality of the underlying demand. That’s why we’ve been going into digital infrastructure, airports and social infrastructure.”

Ifker agrees with Candès and says that regulatory risk in Europe has been generally mispriced for about 10 years. He points to Antin’s experience in the Spanish solar subsidy debacle, with Spanish press reports suggesting the government faces a possible total compensation figure to all investors of €7.6 billion.

“You have to distinguish between what is regulatory risk and unanticipated regulatory accident,” says Ifker. “The former is linked to the periodical revisions of regulated tariffs/allowed returns and is

inherent to investing in regulated assets. It has to be mitigated by taking buffers on the returns and in that respect, we have consistently been saying that regulated assets should at least carry the same ex-ante returns as commercially run assets. The latter, such as the regulatory changes that have taken place in Spanish renewables or in Gassled, are drastic and unanticipated. They can’t be absorbed by returns.”

STUCK IN THE MIDDLE WITH A FEW

An ever-increasing flow of capital and dry powder in the sector has led some to herald the slow decline of the European mid-market – especially with a perceived lack of greenfield development opportunities in the continent. However, our participants remain confident, even if this means a slight shift in approach from before.

“I think we need to be more creative to create the same returns,” maintains

Ifker. “It is necessary to continue to look at complex transactions both in terms of the way they are structured and what you need to do to deliver the same returns. Complexity is fine for us, in fact we like it.”

Candès agrees and believes the changes are due to the success of the market over the past decade. “The market doesn’t have a static definition. The market is moving,” he asserts. “Ten years ago, there were a few strategic investors. Then a couple of banks in Australia decided it could be an asset class on its own. Now the market has evolved and you have segmentations. We should welcome that complexity and diversification as all of that makes a market.”

Like Candès and Ifker, Evans harks back to simpler times for a mid-market manager. “I think there’s no doubt there’s been return compression. We’ve all somewhat had the luxury of being able

“There are still big pension funds that want to increase their allocations and you have medium- to small-sized institutional investors which now have a proper strategy for infrastructure” Signori



to achieve the returns we're looking for in slightly easier assets and now we have to do things that are more complex situations and industries."

There's one particular challenge for Evans and AMP in this space that has him issuing a note of caution.

"What we have seen, a space that has got more crowded, is middle-market assets that have a very low level of operating complexity," he says. "Where people think a business is very easy to run, you'll see the direct investors will come and try to have a go and we've seen that on a couple of occasions. I think you are seeing some of those assets that are perceived to be less complex being bid down into that high single-digit IRR range by people who think it's just like core. I suspect we'll see some people burnt by that over the next five to 10 years in the direct space."

Despite all these concerns, the managers remain bullish and believe the amount of money already raised and deployed in the space serves as a help rather than a hindrance.

"The track record is there and wasn't there before, which is very important," Candès explains. "The track record is helping to bring a level of confidence between the market and GPs."

"Investors have become much more selective and are scrutinising track records and, more importantly, whether a manager has delivered on its promised strategy," adds Ifker. "Investors are now focusing on a manager's ability to create value in a sustainable manner in the current environment."

As the table's representative outside the fund manager community, Dohr-Pawlowitz is well-placed to offer perspective on the managers' claims and what the LPs are looking for.

"The appetite of the LPs is very individual and is also related to allocations, portfolio mix and regulatory issues. European funds are broadly requested from all investors, but there are, of course, also

other investor preferences in the market – i.e. for global platforms and funds. French investors, for example, as we see clearly, have a preference for European funds. We see that too from insurance companies, rather than pension funds. Insurers are more or less, for regulatory reasons, often restricted to investing in European funds only. The trend in the market is still to aim for fund investments as well as for co-investments. Fund managers cannot go out to the market without offering co-investment opportunities – maybe much more requested now than in the past." Having just wrapped up Infracapital's greenfield fund and set to embark on its third brownfield vehicle, Signori has reasons to be optimistic about Europe's mid-market.

"I think the asset class is growing," he offers. "There are still big pension funds that want to increase their allocations and

“Things seem to be changing in Europe [and] that’s just introducing a little unpredictability right now” Evans



you have medium- to small-sized institutional investors that now have a proper strategy for infrastructure. Before it wasn't like that. Europe is still a market that delivers constant and good deal flows."

RESPONSIBLE INVESTMENT

With the course of our discussion covering so much within the theme of change in governments, regulation and the investment market, it seems apt to check how much things have changed simply over the past 12 months. At last years' instalment of the fund managers' roundtable, Dohr-Pawlowitz agreed with the panelists that ESG has now become a central theme, although she contended that it was not yet essential to all European investors. So, what about now?

"It's at the top of the due diligence questions of most European investors. It's a must-have, especially for the French and Nordic investors, but it will, of course, come up in other countries in Europe. Fund proposals have to be highlighted on this, because it is one of the most relevant issues on which an investor will tick the boxes, right after a proposal has been sent out to a potential investor. ESG is very important to investors."

While fund managers in other sectors may be having to shift their strategies to accommodate the requirements stated by Dohr-Pawlowitz, Candès believes this comes slightly more easily to those in the infrastructure market.

"ESG is more natural to this asset class than others," he states. "It's value creation and it's a risk-mitigation approach. What has changed is the level of reporting we do."

Ifker agrees, but adds: "There is more and more focus on the E but people forget about the S and the G."

An additional area that has risen in importance for fund managers is the level of seriousness with which they need to take to cyber-security measures. Recent regulatory measures deliver warnings to managers regarding more general data protection, as



well as to those operating critical infrastructure assets, with fines of about €20 million at stake if they fail to prepare.

"We've had audits done by third parties on the majority of our assets and come up sometimes with quite significant action plans to be implemented, so it has become relatively similar to the ESG side," says Evans. "Certainly, three years ago we weren't bringing in external consultants to look at this. Now I think we have to."

There's a nod of agreement from Signori, who says Infracapital is taking a dual approach to its cybersecurity plans. "There is an increasing awareness of the fact we are dealing with a huge amount of confidential information," he explains. "There is also an increased awareness that we need to push companies in our portfolio and that's what we are doing."

After a raft of high-profile hacks in 2017, it would seem attacking the problem is the best form of defence. ■

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